

## Message Text

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TAGS: ECON, EFIN, ETRD, CE

SUBJ: GSL 1975 BUDGET ESTIMATES REVEAL HIGHER EXPENDITURES  
ON REDUCED REVENUES

1. SUMMARY: FINANCE MINISTER N.M. PERERA READ GSL'S  
FY 1975 (SAME AS CY) BUDGET NOVEMBER 6. PROPOSED EXPENDITURES  
ARE RS. 7.3 BILLION (\$1.09 BILLION) AGAINST REVENUES OF RS.  
4.5 BILLION (\$670 MILLION). EXPENDITURES ARE 25 PERCENT  
HIGHER THAN 1974 BUDGET BUT CLOSE TO 1974 ACTUAL OUTFLOW.  
RS. 2.8 BILLION (\$420 MILLION) DEFICIT IS TWICE BUDGETED  
1974 FIGURE. GAP IS TO BE MET BY DOMESTIC BORROWING, BY  
MONEY SUPPLY EXPANSION ON UNPRECEDENTED SCALE AND BY INCREASED  
FOREIGN ASSISTANCE. FOLLOWING YEAR OF DEALING WITH SHARP  
INCREASES IN COSTS OF IMPORT REQUIREMENTS THROUGH FREQUENT AD HOC  
SUPPLY/PRICING ADJUSTMENTS AND RAPID DOMESTIC INFLATION, GSL  
OFFICIALS CONCEDE BUDGET'S LIMITED USEFULNESS FOR CHARTING  
NATION'S FINANCIAL FUTURE. DEFICIT SIZE, HOWEVER, UNDERSCORES  
GRAVITY OF SRI LANK'S ECONOMIC SITUATION. END SUMMARY.

2. PROPOSED EXPENDITURES: (ALL CONVERSIONS AT RS. 6.65 - U.S.  
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\$1.) PERERA'S PROPOSED 1975 ALLOCATION OF RS. 7.3 BILLION TOTAL

INCLUDES INCREASED CAPITAL EXPENDITURES FOR AGRICULTURE, FISHERIES, LOCAL GOVERNMENT (TIED TO TRANSFER OF ADMINISTRATIVE FUNCTIONS FROM COLOMBO MINISTRIES TO LOCAL POLITICAL AUTHORITIES), AND CONTINUED LARGE-SCALE INVESTMENT IN DRY ZONE IRRIGATION DEVELOPMENT. EMPHASIS IS INCREASED ON DOMESTIC TEXTILES, PAPER AND ILMENITE MINERAL PRODUCTION AND DILAPIDATED RAILROAD SECTOR. SUBSIDIZED FOODSTUFFS BILL DOUBLED OVER 1974 ESTIMATES TO RS. 1.1 BILLION (\$160 MILLION)(REF. COLOMBO 3015). TOURIST DEVELOPMENT FUNDS ARE CUT SLIGHTLY. RECURRENT EXPENDITURES FOR ALL MINISTRIES VIRTUALLY UNCHANGED EXCEPT DROP IN PLANNING MINISTRY. RESULT INCREASES TOTAL PROPOSED EXPENDITURE RS. 1.8 BILLION (\$270 MILLION) SOME 25 PERCENT OVER 1974 ESTIMATES BUT IS CLOSE TO CURRENT SPENDING LEVELS.

3. ANTICIPATED REVENUES: RS. 4.5 BILLION ESTIMATE REPRESENTS LITTLE CUMULATIVE CHANGE FROM 1974 ESTIMATES OF RS. 4.0 BILLION (\$600 MILLION). BECAUSE OF INFLATION, HOWEVER, REAL REVENUE IS REDUCED. THERE ARE MANY TAX INCIDENCE AND ENFORCEMENT REVISIONS BUT OVERALL IMPACT NOT SIGNIFICANT. GOVERNMENT WILL CONTINUE TO RELY HEAVILY ON SALES, EXCISE AND TURNOVER TAX (RS. 468 MILLION OR \$70.3 MILLION), GENERAL SALES AND TURNOVER TAXES (RS. 565 MILLION OR \$84.9 MILLION), EXCISE LEVIES ON LIQUOR AND TOBACCO (RS. 626 MILLION OR \$94 MILLION), TEA TAXES (RS. 231 MILLION OR \$34.7 MILLION) AND IMPORT DUTIES AND CUSTOMS (RS. 400 MILLION OR \$60.1 MILLION) RECEIPTS FROM FOREIGN EXCHANGE ENTITLEMENT CERTIFICATES (FEECs) SALES WILL YIELD RS. 775 MILLION (\$116.4 MILLION) OF WHICH RS. 440 MILLION (\$66.1 MILLION) WILL BE INCURRED BY GOVERNMENT DEPARTMENTS. RECEIPTS FROM GOVERNMENT SERVICES, INCLUDING TRANSPORTATION AND HEALTH CHARGES, WILL YIELD ABOUT RS. 400 MILLION (DYPMQ MILLION). AS IN PAST HIGHLY PROGRESSIVE PROPERTY AND PERSONAL INCOME TAXES HIT WEALTHY HARD BUT PRODUCE MINOR AMOUNTS. PERERA MOVED TO REDUCE WIDESPREAD EVASION OF INCOME CEILING BY RAISING LIMIT BY RS. 6,000 (\$00) PER ANNUM, AND ACKNOWLEDGED INCREASING RESENTMENT AGAINST GEM MERCHANTS' CONVERTIBLE RUPEE ACCOUNTS BY REDUCING PRIVILEGE FROM 25 DOWN TO 20 PERCENT.

4. BUDGETING DEFICIT: ESTIMATED RS. 2.8 MILLION GAP IS DOUBLE 1974 PROJECTION, WHICH PROVIDED TOO MODEST BY 50 PERCENT. WILL ALL FEASIBLE DOMESTIC TAXATION SOURCES AVAILABLE TO GOVERNMENT LIMITED OFFICIAL USE

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NOW VIRTUALLY FULLY EXPLOITED, PERERA'S PRESCRIPTION FOR MEETING GAP RELIES HEAVILY ON LESS ORTHODOX FISCAL DEVICES. IN SIMPLEST TERMS GOVERNMENT ANTICIPATES 2 PERCENT UNDEREXPENDITURE ON CURRENT ACCOUNT AND 25 PERCENT UNDEREXPENDITURE ON CAPITAL ACCOUNT TO SAVE RS. 400 MILLION (\$60.1 MILLION) AND DOMESTIC AMORTIZATION DEFERRAL TO YIELD ANOTHER RS. 500 MILLION (\$75 MILLION). BANK, NON-BANK BORROWINGS, AND "ADMINISTRATIVE" BORROWING AND EXPANSION OF MONEY SUPPLY INTENDED TO MEET ANOTHER

RS. 900 MILLION (\$135 MILLION). REMANDER IS SUPPOSED TO BE MET BY FOREIGN ASSISTANCE (RS. 865 MILLION, OR \$130 MILLION) AND "PROJECT LOANS AND GRANTS" (RS. 230 MILLION, OR \$34 MILLION).

5. FOREIGN EXCHANGE BUDGET: AS HAS BEEN CASE FOR SEVERAL YEARS, NO FOREIGN EXCHANGE BUDGET PRESENTED. (SEE COLOMBO 3072) HOWEVER PERERA DID GIVE MAJOR FOREIGN EXCHANGE RECEIPT AND EXPENDITURE FIGURES, WHICH SUGGEST RESULTS OF RECENT PRIME MINISTERIAL VISIT TO IRAN NOT YET DIGESTED. FOREIGN ASSISTANCE, PROJECT LOANS AND GRANTS ARE TO TOTAL RS. 1,095 MILLION (\$164 MILLION), FIGURE DIFFICULT TO ACCEPT ON BASIS CURRENT ASSISTANCE COMMITMENTS DISBURSABLE 1975. WE UNDERSTAND GSL EXPECTED LARGER IRANIAN AID PACKAGE AND LAST MINUTE REMEDY FOR BUDGET GAP WAS ADMINISTRATIVE BORROWING AND TREATING IRANIAN LONG-TERM GRANTS AND LOANS AS ONE YEAR DISBURSEMENT ITEMS.

6. COMMENT: LAST YEAR'S BUDGET, ALTHOUGH CONSIDERED RELATIVELY REALISTIC AND HARDNOSED IN ITS PROJECTIONS (COLOMBO 2750, NOVEMBER 2, 1973), WAS RAPIDLY OVERTAKEN BY WORLD ECONOMIC CRISIS. BY EARLY 1974 MAJOR PART OF BUDGET WAS PROVEN OBSOLETE, WITH FOODSTUFFS, NET OIL IMPORTS, FERTILIZER AND CAPITAL EQUIPMENT EXPENDITURES FAR EXCEEDING 1974 BUDGET ALLOCATIONS. THUS BUDGET HAS LOST MUCH OF ITS POLITICAL DRAMA AND ECONOMIC MEANING. EVIDENCE OF THIS INCLUDES TIGHT PRE-BUDGET HOARDING AND NATIONAL ASSEMBLY HALF EMPTY AT TIMES DURING PRESENTATION. IN PRESENTING BUDGET PERERA ADMITTED AIR OF UNREALITY IN PLOTTING FIRMLY SRI LANKA'S 1975 FINANCIAL COURSE. THERE HAS BEEN RELIEF THAT NO NEW HEAVY TAXATION IMPOSED AFTER RUMORS PROVED WRONG OF ELIMINATION OF FREE RATION MEASURE RICE, PETROL PRICE HIKE, INCREASED FEES RATE, TAXES ON EMIGRANTS' PLANE TICKETS, DVW. PERERA REFERRED TO MCNAMARA'S DESCRIPTION OF "APPALLING PROSPECT" FOR POOREST NATIONS' LOWEST 40 PERCENT AND TO UK AND U.S. ECONOMIC PROBLEMS TO SUPPORT CONTENTION LIMITED OFFICIAL USE

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GSL'S PROBLEMS NOT UNITED FRONT'S FAULT. IDEOLOGICAL TONE INTENDED TO SATISFY LEFTWING ELEMENTS, WITH PERERA DOUBTING VALIDITY OF CENTRAL BANK EVIDENCE FOR COUNTRY'S ANEMIC 1973-1974 ECONOMIC PERFORMANCE. IN SUBSEQUENT PRESS COMMENT EDITORIALS EXPANDED THIS TO SUGGEST PERERA HAD RESISTED PRESSURE FROM BANK AND PLANNING MINISTRY TO SLASH FOOD RATION. UF TRADE UNION LEADERS CONGRATULATED PERERA FOR INCREASING TAXES ON WEALTHY AND EXPANDING PUBLIC SECTOR FUNCTIONS RATHER THAN CONCLUDING ONLY WAY OUT OF CURRENT DILEMMA WAS SINGAPORE STYLE "CAPITALISM. COMPLIMENTS TO PERERA UNDOUBTEDLY INTENDED TO UNDERSCORE LEFT WING UF AND TRADE UNION DISPLEASURE WITH PRIME MINISTER'S RECENT OPPOSITION TO FURTHER NATIONALIZATION UNTIL EXISTING PUBLIC SECTOR MADE MORE EFFICIENT.

VAN HOLLNE

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